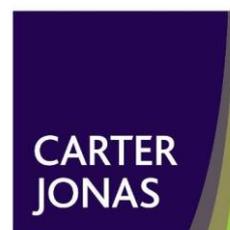


Our Ref: PAR/JA

Your Ref:

Test Valley Borough Council
Planning Policy and Transport Service
Council Offices
Dutton's Road
Romsey
SO51 8XG



The Property People

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14th June 2012

Dear Sirs

Andover Town Centre – Office Market Study

The intention of this brief letter report is to provide an update on earlier reports which were prepared for you by the writer working at Goadsby. The original report was dated 20 December 2006 and the supplemental report was dated 19 August 2009. The purpose of the reports was to provide, from a surveyor's perspective, information and opinions relating to the office use demand and supply in the Town Centre of Andover in connection with the preparation of the Core Strategy/Local Plan for the Borough. Submission is now proposed for 2013 and it was considered that the comments made in 2009 should be updated to ensure their full validity and their reflection of the market at the time of the examination.

The commercial property market suffered from the change in the economic climate later than the residential market. Even so the commercial property market has now been adversely affected for over four years. The current levels of activity are now relatively stable and consistent although they are very much lower than had been usual, prior to the economic crisis, which started in 2007 and is still continuing. Currently there is great uncertainty over the situation in the Euro zone which is having a significant effect on the economy of the United Kingdom.

Whilst it is true that Hampshire is performing better than many other areas of the country, there is still very much less activity than one would normally expect and the market remains very depressed. The depression in the market is uneven with different sectors and different localities being more or less severely affected. The effects of the economic downturn on Andover have been significant and detrimental both in terms of the number of transactions and value levels. Andover continues to retain its perception of being a "blue collar" town and this, coupled with the quality of available stock, has led to a lack of inward enquiries. Whilst the office market in Basingstoke, for example, is weak and the town retains the perception of being an office centre. The office market generally throughout Hampshire is very weak with limited occupier demand for larger purpose built offices. Transactions take much longer from agreement to legal completion than need to be the case due to continued uncertainty. The continued uncertainty in the economy, caused partly by on-going difficulties in the eurozone, the economic forecasts for the UK and the difficulty in borrowing money have made people extremely cautious. In addition, the knowledge there is limited demand for premises reduces pressure on prospective occupiers to move quickly for fear of losing premises.

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In terms of office take up this has been very limited over the past few years for a property in the town centre itself. Away from the town centre take up has been poor but slightly better with take ups of barn conversion at say Redenham Park proceeding as well as activity at Hikeniele House, East Anton Court, Ickniel Way. In the defined town centre itself the last conventional letting, as opposed to some short term licences, is believed to have been that at 66C High Street where 556 ft² was let in June 2011.

The major problem in creating an analysis continues to be the affect of the offices over the Chantry Centre. The marketing of this has continued to be very muted but technically White Bear House (19,381 ft² 1800 m²) and Portland House (6000 ft², 557.41 m²) continue to be available and technically have been available since 1994. This space is unlikely to be let – having no lift no parking and restricted access (only available when the Chantry Centre retailing is open). We have therefore continued to try to separate this out for the purpose of analysis.

In the previous studies comments have been made on the comparative lack of stock and the fact that statistical analysis would be over influenced by an individual transaction. These comments continue to have merit and it was considered better to rely upon general impressions and this continues to be the case. The space currently available is also influenced now by the amount of A2 office space in London Street. London Street is no longer really functioning as a conventional retailing street and had moved very much to the estate agent A2 use. Whilst in the case of some of the units the ground floor “shop” is separated from the offices this is not the case throughout and so space like 35 Andover Street starts to have a significant impact on the general levels available in view of its size.

The property currently available comprises:

Address	Size (ft ²)	Time on market	Average	Average
27A High Street	1464	39 months]]
28A High Street	1345	43 months]]
36 High Street	1276	26 months]]
24A High Street	1984	46 months]]
26 High Street	1234	12 months]]
Ground floor West Wing Aldwych House	1667	4 months] 23.25] 39.36
51 Bridge Street	3500	1 month]]
12 High Street	556	25 months]]
Ellen House 33 London Street	2230	23 months]]
Sheridan House 23-25 High Street	1230	34 months]]
35 London Street	1992	3 months]]
17 -21 London Street	2473	23 months]]
White Bear House Chantry Centre	19381	214 months]
Portland House Chantry Centre	6000	58 months+]

NB:

- 25 High Street (730 ft²) is under offer and so not included as available.
- First floor, 33 London Street, is currently being refurbished.

- 11 Bridge Street is being let by rooms and so is not included in the analysis – space has been available for 40 months plus but this relates to different areas within the building. Currently there is 275 ft² available.

The total available space excluding the Chantry Centre is 20,951 ft².

It should be noted that for several properties the floor area shown in the table is the maximum available. For example at 24a High Street, the space totals 1984 ft² but is available by suite as well. There are 3 suites of 258 ft², 943 ft² and 783 ft² respectively – thus providing more choice than is initially apparent.

The situation regarding the rental value of accommodation in Andover Town Centre is that rents continue to decline but it is very difficult to assess what the correct rent would be due to the limited number of transactions and the nature and extent of incentives offered and how these should be devalued. Consequently the assessment of rental levels is more subjective than it was in the past.

One of the difficulties in utilising the space in Andover Town Centre is the type of access to the premises. Whilst some of the premises would be suitable for alternative uses this is not true of all of them. For example the Chantry Centre properties are restricted by the security requirements of the retailing centre which affects potential operating hours.

Excluding the Chantry Centre the space available in Andover Town Centre at the time of the last analysis in 2009 was 13,330 ft² compared to the space now available of 20,951 ft². The addition of the space in the Chantry Centre to each set of figures would be to increase 2009 space availability to 38,711 ft² and 2012 to 46,332 ft².

Of the individual properties available in 2009, 5 form part of the 12 still being offered (excluding Chantry Centre properties) and comprise about 29% of the total available stock in the town centre. If the Chantry Centre properties are included then 68% of the space currently available would have been available in 2009.

It will be appreciated therefore that take up in Andover has been particularly slow and difficult.

Whilst capital values have been severely affected by the recession, the affect on rental values has been even more pronounced. From my perception this appears to be partly due to the fact that the cost to a landlord of holding an empty property has become much higher with insurance companies putting increasingly onerous obligations, the liability to business rates on empty premises and management time meaning that there is a temptation to let a property at a minimal rent, or with significant incentives, in order to obtain occupation and avoid these costs. This does not mean that the asset itself is disposed of but only the currently onerous liabilities of the empty asset. The incentive to sell a property is reduced by the very limited interest which can be obtained on any cash balances released by the sale. Prices are affected by the perception, whether real or not, that finance for a purchase is difficult to obtain and a very high proportion of deposit is required to facilitate the obtaining of finance money.

It seems appropriate to also continue the rental comparison chart with competing centres. It must again be stressed that these generalised comments are difficult but it is the comparability that is perhaps helpful and I set out again the relationships of rental value:

Town	2007	2009	2012	Change in Value relative to 2007
<u>In Town</u>				
Andover	£10	£10	£7.50	-25%
Newbury	£12 to £14	£10 to £12	£9 to £10	-27%
Winchester	£12	£14 to £15	£11	-8%
Basingstoke	£8 to £9	£8 to £9	£8 to £9	0%
<u>Out of town</u>				
Andover	£12 to £14	£12 to £13	£9 to £10	-27%
Newbury	£15 to £17	£11 to £13	£9	-44%
Winchester	£16 to £17	£17	£16	-3%
Basingstoke	£13 to £15	£12 to £14	£12 to £14	-7%

The chart above illustrates how unevenly the effects of the recession are being felt – even over a very small locality. In each case there are specific reasons for movements in relative rentals. If a number of properties come on to the market at the same time, with a limited demand for them, the effect, unless they have related ownerships, is to cause prices to drop as each owner competes for the limited number of occupiers.

The demand for offices located over shops in the town centre is limited and it seems probable that this is a continuing change in demand rather than just the effect of the current economic cycle. The economic cycle has made the underlying trend more apparent and its effects more severe. This needs to be distinguished from demand for purpose built offices in the town centre which is stronger but where they tend to be more limited product available.

Yours faithfully



Paul Russell

Partner

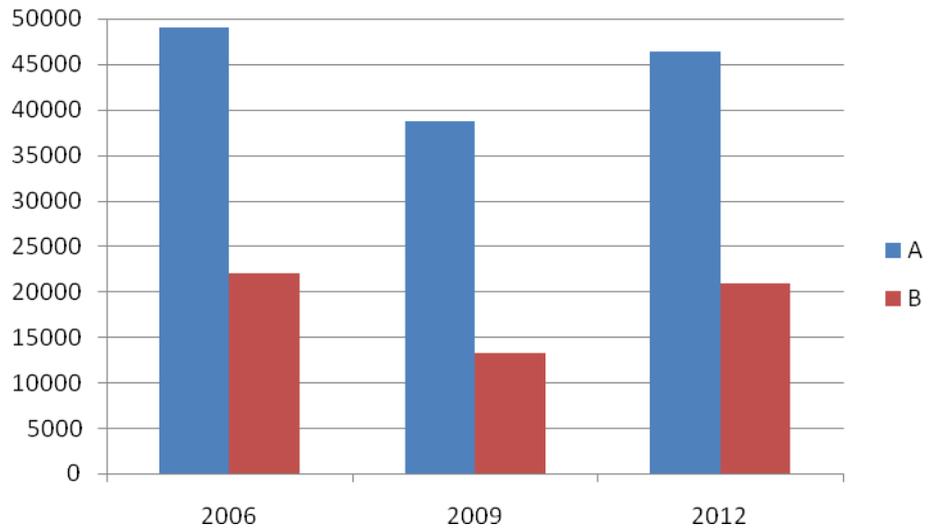
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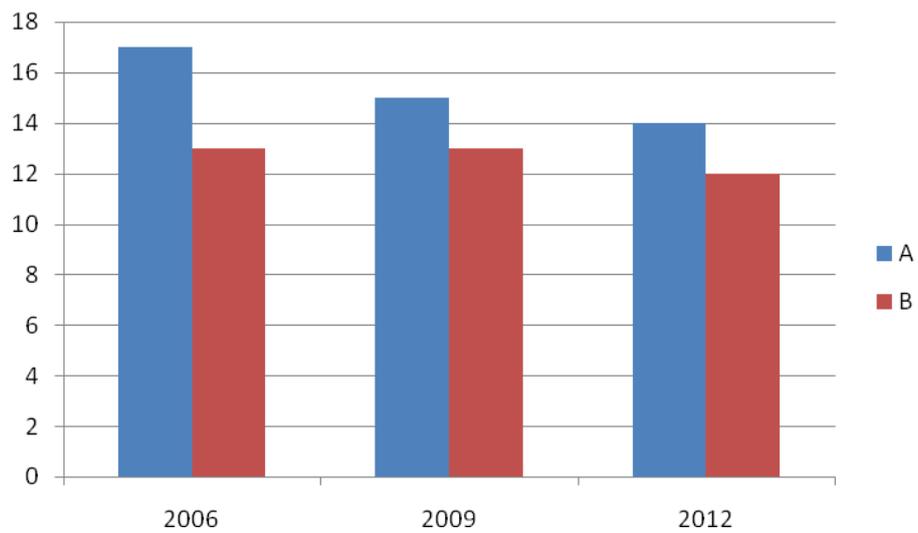
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TOWN CENTRE OFFICES: ANDOVER

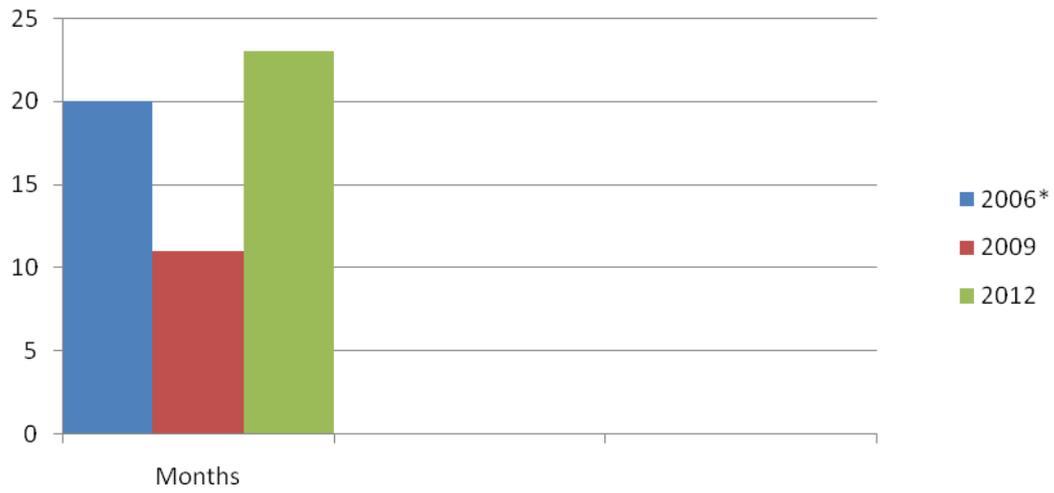
Available stock in terms of total space (A) and excluding space over Chantry Centre (B)



Available stock in terms of number of properties (A) and excluding space over Chantry Centre (B)



Average period of availability principally excluding Chantry Centre



*2006 (previously reported including Part Chantry Centre)